FINANCIAL ACCOUNTING

MODULE 8

August 2011

Answer Question 1

Answer (a) Realised Profit/(Loss) on transfer of relevant assets and Liabilities to Habo Ltd

		Debit	**Credit**
	Bank Overdraft		
	Payables		500
	Receivables	2,200	
	Buildings	68,600	
	Equipment	21,496	
	Motor Car	12,000	
	Stock at cost as at	3,804	
	Consideration		
	Billy		78,000
	Elizabeth		52,000
	Motor Car		16,000
	Profit	38,400	
		146,500	**146,500**
	Profit		38,400
60%	Billy	23,040	
40%	Elizabeth	15,360	
		38,400	**38,400**

Answer (b) Appropriation Account

		Debit	Credit
	Accumulated Profit per Trial Balance		40,000
	Elizabeth salary	12,000	
	Interest on capital		
	Billy	3,200	
	Elizabeth	2,000	
	Share of Residual Profit		
60%	Billy	13,680	
40%	Elizabeth	9,120	
		40,000	**40,000**

Question 1 solution

Answer (c) combined Capital and Current Accounts

		Billy	Elizabeth	Total
Credit	Capital	40,000	25,000	65,000
Cr/Dr	Current a/c	(1,200)	2,600	1,400
Credit	Realised profit	23,040	15,360	38,400
Credit	Salary		12,000	12,000
Credit	Interest	3,200	2,000	5,200
Credit	Profit	13,680	9,120	22,800
	Less			
Debit	Motor vehicle taken	(16,000)		
Debit	Shares taken	(78,000)	(52,000)	(130,000)
		(15,280)	**14,080**	**14,800**

Note alternatively the above could have been presented in the form of T a/cs

The effect of the above balances on the partnership bank account is as follows

	Cash at Bank	
	Debit	**Credit**
Balance b/d		1,200
Billy	15,280	
Elizabeth		14,080
Total	**15,280**	**15,280**

Billy will pay in €15,280 into the bank and Elizabeth will receive €14,080

Answer (d)

Statement of Financial Position of Habo Limited as at 01/07/11

Non Current Assets			
Buildings			100,000
Equipment			21,496
Motor Car	taken over by	Billy	-
			121,496
Goodwill			3,000
Current Assets			
Stock at cost as at	3,804		
Receivables	2,200		
			6,004
Total Assets			**130,500**
Share Capital	90,000		
Share Premium	40,000		
			130,000
Total Equity			
Current Liabilities			
Payables			500
Total Equity and liabilities			**130,500**

Goodwill note
Asset taken over at fair value were

Tangible assets €121,496 plus Current Assets €6,004 equals	€127,500
Less Liabilities taken over	(€ 500)
Equals Fair value of Net Assets acquired	€127,000
Value of shares offered	€130,000
Goodwill	€ 3,000

Question 2 Solution Statement of Income of Learning Toys Ltd for y/e

			31/07/11
			Publish
		€	€
Revenue	**W/N 3**		600,234
Cost of sales	**W/N 1**		(444,950)
Gross Profit			**155,284**
Other operating income-discounts			2,300
Selling and distribution	**W/N 1**	(33,950)	
Administration expense	**W/N 1**	(55,496)	
			(89,446)
Operating profit			**68,138**
Profit on disposal of asset			40,000
Finance Costs			
Redeemable Preference Dividends			(8,000)
Debenture interest		_	(2,000)
Profit before tax			**98,138**
Income tax expense	(4,500)	850	(3,650)
Net Profit for the year			**94,488**

W/N 1 Analyses of Costs by function

	Adjustment	**Production**	**Distribution**	**Admin**	**Total**
Offices and Showrooms	40,000	51,450	7,350	14,700	73,500
Motor Vehicles			3,720	1,594	5,314
Inventory		33,000			33,000
Purchases	(15,000)	365,000			365,000
Purchase Returns		(4,200)			(4,200)
Settlement discount allowed				1,100	1,100
Bad debts per T/B				4,652	4,652
Additional bad debts				3,000	3,000
Increase in doubtful debts				1,330	1,330
Buildings maintenance		7,200	3,600	1,200	12,000
Salaries	(25,000)	42,000	12,000	6,000	60,000
Transport expenses		0	7,280	3,920	11,200
Inventory as at 31/07/11		(49,500)			(49,500)
Sundry Asset	treat as exp			18,000	
Totals	0	**444,950**	**33,950**	**55,496**	**516,396**

*Transport expenses, Buildings Maintenance, Salaries allocated per Qn. note 7

Question 2 solution continued

W/N 2- Non Current Assets
Land
Sold for €440,000 land with a carrying value of €400,000 representing a gain of €40,000
Transfer realised revaluation surplus on land from Revaluation account to Retained Profits as at 31/07/11

Office Showrooms 15% Straight line
€450,000 plus €25,000 wages plus €15,000 materials equals €490,000
Depreciation charge is €490,000 x 15% equals €73,500 to I/S 31/07/11

Allocated Production 70% Distribution 10% Administration 20%
Net Book value €490,000 less [€270,000 plus €73,500] equals **€146,500**

Motor Vehicles-10% Reducing balance
[€90,000 less €36,856] x 10% equals €5314 to I/S year ended 31/07/11

Allocated Distribution 70% Administration 30%
Net Book value €90,000 less [€36,856 plus €5314] equals **€ 47,830**

Total Non Current Assets on SOFP equals €146,500 plus €47,830 = **€194,330**

W/N 3 Computation of Revenue amount for Income statement

T/B sales	€625,000
VAT	(€15,391)
Adjusted	**€600,234**

Net of returns	**12.50%**	**10%**	**extra**
€615,625	€76,953	€61,563	€15,391

W/N 4 Computation of provision increase and receivables balance

Receivables per T/B	€68,000
Less bad debt per note	(€3,000)
Revised receivables balance	**€65,000**
	-
Closing provision 31/07/11	**€3,250**
Opening provision pet T/B	(€1,920)
Income Stat. Year ended 31/07/11	€1,330
Receivables as at 31/07/11	**€61,750**

Answer (b) Statement of Financial Position of Learnng Toys as at 31/07/11

	€	€	€
Non current Assets			**Publish**
Property, Plant and Transport	**W/N 2**		194,330
Current Assets			
Inventory		49,500	
Receivables	68,000		
bad debts	(3,000)		
	65,000		
Provision for doubtful debts	(3,250)		
		61,750	
Sundry Debtor land		440,000	
Total Current Assets			551,250
Total Assets			**745,580**
Equity and Liabiltiies			
Equity			
Ordinary Share capital	200,000		
Share Premium	25,000		
Retained Profits	239,488		
Total Equity			**464,488**
Non Current Liabilities			
5% Debentures	40,000		
8% Redeemable Preference Shares	100,000		
			140,000
Current Liabilities		**Note 1**	141,092
Total Equity and Liabilities			**745,580**

Answer continues on next page

Note 1 Analysis of Current Liabilities	€
Payables	
Creditors	22,000
Preference div	4,000
Taxation	4,500
Interest	1,000
VAT	14,191
Bank	95,401
Total Current Liabilities	**141,092**

Statement of changes in Equity for Y/E 31/07/11 [not asked for]

	Ordinary Share Capital	**Revaluation**	**Share Premium**	**Retained Earnings**	**Total**
Balance as at 01/04/10	200,000	60,000	25,000	95,000	380,000
					0
Profit				94,488	94,488
Disposal of land		(60,000)		60,000	0
Ordinary Dividends paid				(10,000)	(10,000)
Balance at 31/0311	**200,000**	**0**	**25,000**	**239,488**	**464,488**

A dividend of €0.01 per Ordinary shares amounting to €2,500 was proposed on the 15/08/11

Question 3 Solution

Answer (a)

Note	Account	Debit	Credit
(1)	Light & Heat expense	€1,800	
	Light & Heat accrual		€1,800
	Being accrual for Light & Heat omitted from the records		
(2)	Share Capital [150,000 shares x€0.80-€0.75]	€7,500	
	Share Premium		€7,500
	Being the correction of the incorrect amount of the nominal value per share		
(3)	Preference share capital	€70,000	
	Non Current Liabilities		€70,000
	Being the reclassification of Redeemable Preference Shares as a Non Current Liability		
	Preference Dividend-Interest expense	€3,500	
	Retained Profits		€3,500
	Being reclassification of Preference Dividend from an equity dividend to an interest expense		

Note the **<u>Net</u>** affect on retained profits in Equity is zero

Note	Account	Debit	Credit
(4)	Production costs/Cost of Sales	€1,275	
	Inventory at year end		€1,275
	Being write down of un-sellable stock to zero		
(5)	Sales	€18,000	
	"Disposal of Machine"		€18,000
	Machine		€25,000
	"Disposal of Machine" a/c	€25,000	
	Disposal of Machine		€8,000
	Income Statement-Loss on disposal	€ 8,000	
	Being the removal of proceeds from sale of machine from day to day sales and the presentation of its disposal as single amount ie. loss		

<u>Note</u>

The correct entries should have resulted in a Net debit loss of €7,000 ie. sales €18,000 credit less Net Book value debit of €25,000. Since €18,000 is already credited to "regular" sales , then transferring this out of such sales to an "Disposal Machine" account will reduce existing profits by €18,000 which along with debit to I/S of €7,000 Loss means an overall net debit reduction of €25,000 of Retained Profits.

Note Account

(5)-note continued
No information is given on the accumulated depreciation on sold asset and its cost. Had such information been available then the full journal entries would have been

		Debit	Credit
Machine Account	[cost of asset]		€xxx
"Disposal of Machine" Account [cost of asset]		€xxx	
Accumulation depreciation on sold machine		€yyyy	
"Disposal of Machine" account			€yyy

Instead based on information available a net transfer of €25,000 is made

	Debit	Credit
(6) Receivables		€400
Operating Expenses	€400	
Being revision of the provision for doubtful debts from 5% to 10%		

Note
Receivables equals 95% after 5% write off thus €7,600/95% equals €8,000 . Thus original provision was €8,000 x 5% equals €400. But should be €8,000 x 10% equals €800. Increase is thus €400

	Debit	Credit
(7) Rent expense		€1,650
Rent Prepaid	€1,650	
Being removal from rental expense rent representing the payment for August 2011		
(8) Revaluation account	€17,000	
Income Statement-Other losses	€ 1,700	
Land		€18,700

Being the write of land from €120,000 to €101,300 in which €17,000 represented a reduction in the revaluation arising from a previous upward revaluation of the asset, and the excess being charged to income Statement

Answer Question 3 (b) W/Note showing computation of final balances

		Ordinary Share Capital	Preference Share Capital	Share Premium	Revaluation	Retained Profits	Total
	Per Question	€120,000	€70,000	€109,500	€17,000	€51,800	€368,300
Note 1	Light & Heat					(€1,800)	(€1,800)
Note 2	Error in Nominal.Val.	(€7,500)		€7,500			€0
Note 3	Reclassify		(€70,000)				(€70,000)
	Pref Dividends					See below	€0
Note 4	Stock W/Down					(€1,275)	(€1,275)
Note 5	NBV of sold machine					(€25,000)	(€25,000)
Note 6	Receivables W/D					(€400)	(€400)
Note 7	Prepaid w/back					€1,650	€1,650
Note 8	W/Off revaluation				(€17,000)	(€1,700)	(€18,700)
	***Answer---(b)→**	**€112,500**	**€0**	**€117,000**	**€0**	**€23,275**	**€252,775**

*Note only final amounts required. Other details represent workings. Preference dividend reclassification as expense has a zero net affect on final retained profits.

Question 4 Multi-choice solutions

Item

1 Return on CE equals $\frac{\text{Pb I\&T}}{\text{C/E}} \times 100\% = \frac{€7{,}000}{€122{,}936} \times 100\% = 5.69\%$

Answer (a)

2 Receivable days $\frac{\text{Receivables}}{\text{Sales}} \times 365 \text{ days} = \frac{€4{,}500}{€100{,}000} \times 365 \text{ days} = 16 \text{ days}$

Answer (a)

Item 3 Interest Gearing $= \frac{\text{PbI\&T}}{\text{Interest}} = \frac{€7{,}000}{€1{,}200} = 5.83$

Answer (c)

4

Quick Assets $\frac{\text{C.A. less inventory}}{\text{Current liabilities}} = \frac{€4{,}500}{€11{,}564} = 0.39 \text{ to } 1$

Answer (b)

5 (c) Non adjusting event

6 (d) State at lower of carrying amount and recoverable amount

7 (a)

8 [Sales €85,500x100%/112.5%] x 20%/120% equals profit of **€12,667**

Cost of sales [€85,500 x 100%/112.50%] less €12,667 equals €63,333

[Closing inventory €153,000 x100%/112.50%] less €63,333 equals **€72,667**

Answer (a)

Item 9 (b)

Item 10 (b)

←---------------------END OF SOLUTIONS----------------→